

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**REPORTING FOREIGN COMPARATIVE
TESTING PROJECT COSTS**

Report No. 98-055

January 23, 1998

Department of Defense

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



January 23, 1998

**MEMORANDUM FOR DIRECTOR, TEST, SYSTEMS ENGINEERING AND
EVALUATION**

SUBJECT: Audit Report on Reporting Foreign Comparative Testing Project Costs
(Report No. 98-055)

We are providing this final audit report for your information and use. Management comments on a draft of this report were considered in preparing the final report.

Comments on the draft of this report conformed to the requirement of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional response is necessary.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. John E. Meling, Audit Program Director, at (703) 604-9091 (DSN 664-9091) or Mr. Harold C. James, Audit Project Manager, at (703) 604-9093 (DSN 664-9093). See Appendix D for the report distribution. Audit team members are listed inside the back cover.

Robert J. Lieberman
Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-055
(Project No. 7AE-0039.02)

January 23, 1998

Reporting Foreign Comparative Testing Project Costs

Executive Summary

Introduction. This report is the second in a series of reports addressing the Foreign Comparative Testing Program (Testing Program). The first report addresses the use of Testing Program funds for the BOL Expendable Countermeasure Dispenser. The objective of the Testing Program is to test and evaluate foreign nondevelopmental items to determine whether the items can be used to satisfy U.S. military requirements. The Testing Program is intended to reduce overall DoD acquisition costs by facilitating the procurement of successfully tested foreign nondevelopmental items instead of developing comparable items domestically. The Testing Program receives about \$35 million annually to fund DoD Component project proposals.

Audit Objective. The primary audit objective was to determine whether DoD system acquisition managers were considering and using the Testing Program when formulating acquisition strategies. We also reviewed implementation of management controls applicable to the audit objective.

Audit Results. The Testing Program Office did not track and summarize the costs that the DoD Components incurred from participating in the Testing Program. As a result, the Program Manager for the Testing Program could not measure the overall cost-effectiveness of the Testing Program. See Part I for details. Also, see Appendix A for details of the review of the management control program.

Summary of Recommendations. We recommend providing specific guidance to Testing Program project managers on identifying and reporting funding contributions that the DoD Components make to support the Testing Program. Also, we recommend tracking and summarizing the costs that the DoD Components report and using the reported project cost information annually to help measure the continued cost-effectiveness of the Testing Program.

Management Comments. The Director, Test, Systems Engineering and Evaluation, responding for the Program Manager for the Testing Program, concurred with the finding and recommendations. See Part I for a summary of management comments responding to each recommendation and Part III for the complete text of management comments.

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Part I - Audit Results

Audit Background

This report discusses how the Program Manager for the Foreign Comparative Testing Program (Testing Program) tracks and summarizes costs that the Army, the Navy, the Air Force, the Marine Corps, and the U.S. Special Operations Command (referred to in this report as DoD Components) incur as part of participating in the Testing Program.

Testing Program. Section 2350a(g) of Title 10, United States Code, "Cooperative Research and Development Projects: Allied Countries," authorizes the Secretary of Defense to perform side-by-side testing to determine whether foreign technologies and equipment can be used to satisfy U.S. military requirements. In 1989, DoD established the Testing Program to satisfy the Title 10 requirement. The objective of the Testing Program is to test and evaluate foreign nondevelopmental items to determine whether the items satisfy U.S. military requirements or whether they address mission area shortcomings. DoD guidance for the Testing Program is provided in DoD Manual 5000.3-M-2, "Foreign Comparative Testing Program Procedures Manual," January 1994. The Program Manager for the Testing Program functions under the Director, Test, Systems Engineering and Evaluation, in the Office of the Under Secretary of Defense for Acquisition and Technology.

DoD policy is to fulfill military requirements through the acquisition of commercial and nondevelopmental items to the maximum extent practicable. The Testing Program is intended to reduce the overall DoD acquisition costs by facilitating the procurement of successfully tested foreign nondevelopmental items instead of developing comparable items domestically. The Testing Program also strengthens U.S. relationships with allied and friendly nations and provides for accelerated fielding of equipment critical to the readiness and safe operations of U.S. forces. Sponsoring organizations in the DoD Components submit project proposals to the Program Manager for the Testing Program for testing foreign nondevelopmental items.

Funding for the Testing Program. The Testing Program receives separate funding in a program element included in the budget for the Office of the Secretary of Defense, Test, Systems Engineering and Evaluation. Each year, after selecting DoD Component project proposals, the Program Manager for the Testing Program normally allocates Testing Program funds to approved projects for a 2-year period. While the Program Manager normally funds the costs to procure and test the foreign nondevelopmental items, DoD Manual 5000.3-M-2 requires that the DoD Components pay the costs for testing

any competing domestically produced, nondevelopmental items. In addition, the DoD Components may voluntarily agree, in their Testing Program project proposals, to share other test-related costs, such as personnel travel expenses. The Program Manager considers the willingness of the DoD Components to share testing costs as part of the criteria for selecting and funding project proposals.

Audit Objective

The primary audit objective was to determine whether DoD system acquisition managers were considering and using the Testing Program when formulating acquisition strategies. This report on the process for tracking and summarizing DoD Component costs that support the Testing Program is the second in a series of reports addressing the Testing Program. The first report addresses the use of Testing Program funds for the BOL Expendable Countermeasures Dispenser. We also reviewed the implementation of management controls applicable to the audit objective. In Appendix A, we discuss the scope and methodology used to accomplish the audit objective as well as management controls and prior audit coverage.

DoD Component Costs Related to the Foreign Comparative Testing Program

The Testing Program Office did not track and summarize the costs that the DoD Components incurred as part of participating in the Testing Program. The condition occurred because the Testing Program Office had not emphasized that Testing Program project managers track and report the funding contributions that the DoD Components provided to meet project costs in excess of funds received from the Testing Program. Also, the Program Office had not provided DoD Components with specific guidance to identify and report the funding contributions made to support the Testing Program. As a result, the Program Manager for the Testing Program could not measure the overall cost-effectiveness of the Testing Program.

Program Manager Reporting Requirements and DoD Component Reporting Responsibilities

Program Manager Reporting Requirement. Section 2350a(g) of Title 10, United States Code, requires that the Program Manager for the Testing Program report the status of all testing projects, including Testing Program funds obligated, in an annual report to Congress.

DoD Component Reporting Responsibilities. DoD Manual 5000.3-M-2 requires that Testing Program project managers prepare and submit quarterly project status reports to the Program Manager for the Testing Program. The Program Manager uses the cost and schedule information provided in the quarterly reports to better understand the status of each testing project.

DoD Component Project Costs

The Testing Program Office did not track and summarize the project costs that the DoD Components incurred as part of participating in the Testing Program. Specifically, the Program Office tracked and summarized project costs that were incurred using only Testing Program funds. We analyzed cost data for 22 of the 74 Testing Program projects that originated in FYs 1994 through 1997. Our analysis showed that the DoD Components contributed or planned to contribute

30 percent of the total project costs. For the 22 projects reviewed, the DoD Components contributed \$18.4 million to supplement the \$43.4 million that the Testing Program Office obligated or planned to obligate to conduct the testing efforts. Appendix B summarizes Testing Program and DoD Component costs incurred for the 22 projects reviewed.

Program Costs Tracked and Reported

Section 2350a(g) of Title 10, United States Code, requires that the Testing Program Office provide Congress with cost data on the use of funds provided in the DoD program element established for the Testing Program. Section 2350a(g) does not require the Program Office to provide Congress with cost data on the DoD Component funding contributions to support test efforts conducted under the Testing Program. As a consequence, the Program Office did not track, summarize, and report the DoD Component contributions to support the Testing Program. Further, the Program Manager for the Testing Program stated that he did not have the resources needed to verify the accuracy of the DoD Component reported project costs.

Although the Program Manager for the Testing Program lacked the resources needed to verify the accuracy of the reported DoD Component funding contributions, the Testing Program Office could summarize the cost data that the project managers provide in quarterly project status reports to obtain a reasonable estimate of the DoD Component funding contributions. Appendix C contains the format for the quarterly project status report. For 19 of the 22 projects reviewed, the DoD Components provided or planned to provide at least as much funding as reported to the Testing Program Office. Considering the limited resources of the Testing Program Office, the cost data provided in the quarterly project status reports would provide the Program Manager with a reasonable cost estimate of the DoD Component funding contributions to support Testing Program projects.

Guidance for Reporting DoD Component Project Costs

The Testing Program Office has not provided project managers with specific guidance to identify and report the DoD Component costs incurred in planning and executing Testing Program projects. According to the review of 22 projects, 8 project managers did not:

- o understand which DoD Component costs should be reported or
- o report the DoD Component costs properly to the Testing Program Office.

Reported Costs. DoD Manual 5000.3-M-2 does not provide clear instructions or examples of the types of costs that project managers should report as DoD Component project costs. At the Air National Guard Air Force Reserve Test Center, we interviewed project managers for the F-16 Pylon Flare, the Night Vision Goggle Camera System, and the Modular Reconnaissance Pod projects. The project managers stated that the guidance in the manual did not provide clear instructions on which costs should be considered as Air Force funding contributions to the Testing Program. For example, in preparing proposals, the project managers performed upfront research to ensure that the products had a high probability of procurement. For the Night Vision Goggle Camera System, the project manager included the upfront research costs as an Air Force funding contribution in the project proposal. However, the project manager for the Modular Reconnaissance Pod did not include the upfront costs as an Air Force funding contribution in the project proposal. The Program Manager for the Testing Program could improve the accuracy and consistency of DoD Component project cost reporting if he provided more specific guidance for project managers on which project costs should be reported as DoD Component funding contributions.

Unreported Costs. The project manager for the Cordless Communication project did not report any Army costs in the quarterly project status report. The project manager stated that he was unaware that he was to report the Army funding contribution in the quarterly project status report. We received comments from three other Testing Program project managers who stated that the Testing Program Office had not provided clear guidance to report DoD Component costs. The Program Manager for the Testing Program could improve the process for reporting DoD Component costs if he provided more specific guidance on how to report the costs in the quarterly project status report.

Assessing Cost-Effectiveness

Without tracking and summarizing the DoD Component funding contributions, the Program Manager for the Testing Program could not measure the overall cost-effectiveness of the Testing Program. For the 22 projects reviewed, we determined that the DoD Component project costs accounted for 30 percent of the total project costs. By tracking and summarizing the total costs for the Testing Program, the Program Manager would be able to better assess the cost-effectiveness of the Testing Program. Although we believe that the Testing Program is still cost-effective, the Program Manager could better determine the cost-effectiveness of the Testing Program through more complete DoD Component identification, tracking, and reporting of all project costs related to the Testing Program.

Recommendations and Management Comments

We recommend that the Program Manager for the Foreign Comparative Testing Program:

- 1. Provide specific guidance to project managers on how to identify and report funding contributions that the DoD Components make to support the Foreign Comparative Testing Program.**

Management Comments. The Director, Test, Systems Engineering and Evaluation, responding for the Program Manager for the Testing Program, concurred, stating that the Testing Program handbook will include specific guidance for the DoD Components to identify and report their funding contributions. The handbook will be issued in March 1998.

- 2. Track and summarize reported project costs that the DoD Components incur as part of participating in the Foreign Comparative Testing Program.**

Management Comments. The Director, Test, Systems Engineering and Evaluation, responding for the Program Manager for the Testing Program, concurred, stating that the Program Manager started to track the DoD Components' funding contributions in September 1997.

DoD Component Costs Related to the Foreign Comparative Testing Program

- 3. Use the reported project cost information annually to help measure the continued cost-effectiveness of the Foreign Comparative Testing Program.**

Management Comments. The Director, Test, Systems Engineering and Evaluation, responding for the Program Manager for the Testing Program, concurred, stating that he will use the DoD Component funding information annually to measure the continued cost-effectiveness of the Testing Program.

Part II - Additional Information

Appendix A. Audit Process

Scope

We conducted this program audit from May through November 1997 and reviewed data from July 1991 through November 1997. The Testing Program receives about \$35 million annually to fund testing of foreign nondevelopmental items. As part of our review of the Testing Program, we reviewed the proposals that the DoD Components submitted to the Testing Program Office for FYs 1994 through 1997. We also judgmentally selected and reviewed cost data for 22 Testing Program projects. For each project, we reviewed quarterly project status reports and supporting cost data. We also reviewed Testing Program guidance for tracking, summarizing, and reporting Testing Program costs.

Methodology

We conducted this program audit in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as we deemed necessary. We did not rely on computer-processed data to develop conclusions on this audit.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

Management Control Program

Requirement for Management Control Review. DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the management controls related to the process for tracking, summarizing, and reporting project cost data for the Testing Program.

Adequacy of Management Controls. We identified a material management control weakness for the Testing Program as defined by DoD Directive 5010.38. Specifically, the Testing Program Office had not established control procedures needed to track and summarize DoD Component project costs that directly support the Testing Program. All recommendations in this report, if implemented, will help ensure that the Program Manager for the Testing Program can measure the overall cost-effectiveness of the Testing Program. We will provide a copy of this report to the senior official responsible for management controls in the Office of the Director, Test, Systems Engineering and Evaluation.

Adequacy of Management's Self-Evaluation. The Program Manager identified the Testing Program as an assessable unit and, in our opinion, correctly identified the risks associated with the Testing Program. However, in his evaluation, the Program Manager did not identify the material management control weakness that the audit identified because the Program Manager did not specifically address the lack of guidance and procedures for tracking and summarizing the funding contributions of DoD Components to meet project costs in excess of funds received from the Testing Program. However, the Testing Program evaluation did evaluate the accounting and administrative controls for Testing Program funds. As part of the review, the Program Manager stated that the controls in place provided reasonable assurance that:

- o obligations and costs were in compliance with the law;
- o funds, property, and other assets were safeguarded against fraud, waste, loss, unauthorized use, or misappropriation; and
- o revenues and expenditures applicable to agency operations were properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets.

Summary of Prior Coverage

Office of the Inspector General, DoD, Report No. 98-047, "Use of the Foreign Comparative Testing Program Funds for the BOL Expendable Countermeasures Dispenser," January 15, 1998, was the first in the series of reports on the Testing Program. The report states that the F-15 System Program Office began testing the BOL Expendable Countermeasures Dispenser (BOL Dispenser) for the F-15 aircraft without submitting required documentation to the Program Manager of the Testing Program to show that Testing Program funding was warranted. As a result, the Program Manager for the Testing Program planned to allocate \$1.6 million of limited Testing Program funds to continue the project, which did not have an executable plan to support the Air Force decision authority in making a procurement decision for the BOL Dispenser. The report recommended that the F-15 System Program Director provide the Program Manager for the Testing Program with approved integration and operational test plans and Air Combat Command documentation showing its intent to budget procurement funds in the Program Objective Memorandum 2000 for the BOL Dispenser project. The report also recommended that the Program Manager for the Testing Program delay allocating additional funding to the BOL Dispenser project until the Air Force provides the required information. If the documentation is not provided, the Program Manager should cancel the BOL Dispenser project. The F-15 System Program Director and the Director, Test, Systems Engineering and Evaluation, responding for the Program Manager for the Testing Program, concurred with the applicable recommendations.

Appendix B. Costs for Selected Foreign Comparative Testing Program Projects

<u>DoD Component</u>	<u>Projects</u>	<u>Testing Program Funds (in millions)</u>	<u>DoD Component Funding Contributions (in millions)</u>
Army	Dewar Assembly I	\$ 3.995	\$ 1.900
	Dewar Assembly II	1.959	1.063
	1.0 Watt Cooler	0.407	0.851
	1.75 Watt Cooler	0.465	0.180
	Cordless Comm	0.274	0
	Bradley Grille	<u>0.345</u>	<u>0</u>
	Subtotal	\$ 7.445 (65 percent)	\$ 3.994 (35 percent)
Navy	Digital Voice/Data	1.462	2.136
	MA-31	3.551	5.179
	CAS/AUR Warhead	5.724	0
	Diving Suit	1.960	2.013
	Comm Faired Mast	0.897	0.987
	Antenna System	<u>0.374</u>	<u>0.250</u>
	Subtotal	\$13.968 (57 percent)	\$10.565 (43 percent)
Air Force	600 Gallon Tank	0.250	0.250
	C-17 Flare	1.300	0.264
	F-15 BOL	2.250	0.040
	Castings	0.889	0.275
	Modular Pod	1.243	0.938
	Night Vision Goggle	0.370	0.050
	Pylon Flare	<u>0.738</u>	<u>0.125</u>
	Subtotal	\$ 7.040 (78 percent)	\$ 1.942 (22 percent)
Special Operations Command	M72 Rocket Motor	3.958	0
	JRAAWS I	4.962	0
	JRAAWS II	<u>6.055</u>	<u>1.910</u>
	Subtotal	\$14.975 (89 percent)	\$ 1.910 (11 percent)
	Total	\$43.428 (70 percent)	\$18.411 (30 percent)
CAS/AUR	Close Air Support/All-Up Round		
Comm	Communications		
JRAAWS	Joint Range Anti-Armor Personnel Weapon System		

Appendix C. Quarterly Project Status Report

Appendix D. Report Distribution

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Director, Test, Systems Engineering and Evaluation
Program Manager for the Foreign Comparative Testing Program
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Department of the Army

Deputy Under Secretary of the Army, International Affairs
Program Executive Officer, Ground Combat Support Systems
Director, U.S. International Cooperative Programs Activity
Foreign Comparative Testing Program Manager
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Director, Navy International Program Office
Foreign Comparative Testing Program Manager
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Under Secretary of the Air Force (International Affairs)
Foreign Comparative Testing Program Manager
Commander, Air National Guard, Air Force Reserve Test Center
Auditor General, Department of the Air Force

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Foreign Comparative Testing Program Manager
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Director, Defense Logistics Agency
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Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Director, Test, Systems Engineering and Evaluation Comments

The Director, Test, Systems Engineering and Evaluation provided the following memorandum to respond to three draft audit reports related to the Testing Program.


ACQUISITION AND TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

8 JAN 1998

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Department of Defense Inspector General Audit Report on the Foreign Comparative Testing Program

The purpose of this memo is to respond to the subject audit report in accordance with the requirements of Department of Defense (DoD) Directive 7650.3.

The following lists the three DoD Inspector General (IG) audit report recommendations for the Office of the Secretary of Defense (OSD) Foreign Comparative Testing (FCT) Program along with the respective response for each IG recommendation.

Audit Report Topic: FCT proposal to test nickel cadmium batteries for use on the Advanced Sea-Air-Land Delivery System vehicle. (Project No. 7AE-0039.00)

IG Summary of Recommendation: The DoD Foreign Comparative Test Program Manager consider the candidate nomination proposal for the battery project in the out-of-cycle project selection process for FY 1998 funding.

Response: The OSD FCT Program Manager (PM) concurs with this recommendation. When the U.S. Special Operations Command formally submits a project proposal for FY 1998 FCT out-of-cycle funding for the battery project, the OSD FCT Office will consider the proposal for out-of-cycle approval based on the merits of the proposal and its adherence to the Program's guidelines and intent.

Audit Report Topic: Use of Comparative Testing Program Funds for the BOL Expendable Countermeasures Dispenser. (Project No. 7AE-0039.01)

IG Summary of Recommendations: The F-15 System Program Director provide the Program Manager for the Testing Program with approved integration and operational test plans.

Response: The OSD FCT PM concurs with this recommendation. The F-15 Systems Program Manager has already provided both the FCT Office and the DoD IGs Office with an approved and signed test plan outline for the first phase of qualification testing.

IG Summary of Recommendations: The F-15 System Program Director provide Air Combat Command documentation showing its intent to budget procurement funds in the Program Objective Memorandum (POM) 2000 for the BOL Dispenser project.

Response: The OSD FCT PM concurs with this recommendation. The F-15 System Program Director has forwarded a signed letter from Air Combat Command (ACC) stating its intent to budget procurement funds in the POM for 2002 with ACC stating it will try to accelerate the procurement funding in the 2000 POM if the FCT project is successful.

IG Summary of Recommendations: The Program Manager for the Testing Program delay allocating additional funding to the BOL Dispenser project until the Air Force provides the required information. If the documentation is not provided then the program manager should cancel the BOL Dispenser project.

Response: The OSD FCT PM concurs with modification with this recommendation. As discussed with representatives of the DoD IG after attending the F-15 BOL Project meeting at the Air Force FCT office on 3 Dec 1997, the OSD FCT PM believed that the F-15 System Program Director would provide the necessary information by the suspense date, and therefore, the OSD FCT PM decided to immediately allocate funding to keep the project running. In the event the information was not provided or the ACC warfighter representative pulled support of the project, then the OSD PM would initiate action to cancel the project and pull back the funding at that time. As of 5 Jan 1998, the F-15 System Program Director has satisfied all the above issues.

Audit Report Topic: Reporting Foreign Comparative Testing project costs.
(Project No. 7AE-0039.02)

IG Summary of Recommendations: The OSD FCT Office should provide specific guidance to Testing Program project managers on identifying and reporting funding contributions that the DoD Components make to support the Testing Program.

Response: The OSD FCT PM concurs with this recommendation. Specific guidance is included in the FCT handbook in final draft, and the FCT proposal format requires this information be included in each new proposal. Handbook will be finalized 15 March 1998.

IG Summary of Recommendations: The OSD FCT Office should track and summarize the costs that the DoD Components report and use the reported project cost information annually to help measure the continued cost-effectiveness of the Testing Program.

Director, Test, Systems Engineering and Evaluation Comments

Response: The OSD FCT PM concurs with recommendation. The OSD FCT Office is currently tracking the DoD Components funding contributions in the FCT Database (started tracking in September 97). The OSD FCT Office will summarize and use this information annually to help measure the continued cost effectiveness of the Testing Program.

I appreciate your efforts. My POC is Colonel Randall G. Catts, USA, 703/578-6578, e-mail: cattsrsg@acq.osd.mil.



Patricia Sanders
Director, Test, Systems
Engineering and Evaluation

Audit Team Members

The Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Thomas F. Gimble
Patricia A. Brannin
John E. Meling
Harold C. James
Donald E. Pierro

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